CALLON PETROLEUM CO
Form 10-Q
November 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM
10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended September 30, 2014

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number 001-14039

Callon Petroleum Company

(Exact Name of Registrant as Specified in Its Charter)

Delaware	64-0844345
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
200 North Canal Street	
Natchez, Mississippi	
(Address of Principal Executive Offices)	39120 (Zip Code)

601-442-1601

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes No

As of October 31, 2014, 55,225,288 shares of the Registrant’s common stock, par value $0.01 per share, were outstanding.

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DEFINITIONS

All defined terms under Rule 4-10(a) of Regulation S-X shall have their statutorily prescribed meanings when used in this report. As used in this document:

- ARO: asset retirement obligation.
- Bbl or Bbls: barrel or barrels of oil or natural gas liquids.
- BOE: barrel of oil equivalent, determined by using the ratio of one Bbl of oil or NGLs to six Mcf of gas. The ratio of one barrel of oil or NGL to six Mcf of natural gas is commonly used in the industry and represents the approximate energy equivalence of oil or NGLs to natural gas, and does not represent the economic equivalency of oil and NGLs to natural gas. The sales price of a barrel of oil or NGLs is considerably higher than the sales price of six Mcf of natural gas.
- BBtu: billion Btu.
- BOE/d: BOE per day.
- Btu: a British thermal unit, which is a measure of the amount of energy required to raise the temperature of one pound of water one degree Fahrenheit.
- LIBOR: London Interbank Offered Rate.
- LOE: lease operating expense.
- MBbls: thousand barrels of oil.
- MBOE: thousand BOE.
- Mcf: thousand cubic feet of natural gas.
- MMBtu: million Btu.
- MMcf: million cubic feet of natural gas.
- NGL or NGLs: natural gas liquids, such as ethane, propane, butanes and natural gasoline that are extracted from natural gas production streams.
- NYMEX: New York Mercantile Exchange.
- Oil: includes crude oil and condensate.
- SEC: United States Securities and Exchange Commission.
- GAAP: Generally Accepted Accounting Principles in the United States.

With respect to information relating to our working interest in wells or acreage, “net” oil and gas wells or acreage is determined by multiplying gross wells or acreage by our working interest therein. Unless otherwise specified, all references to wells and acres are gross.

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Part I. Financial Information

Item I. Financial Statements

Callon Petroleum Company

Consolidated Balance Sheets

(in thousands, except par and per share values and share data)

	September 30, 2014 Unaudited	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,193	$ 3,012
Accounts receivable	27,923	20,586
Deferred tax asset	3,321	3,843
Fair value of derivatives	4,842	60
Other current assets	1,260	2,063
Total current assets	44,539	29,564
Oil and natural gas properties, full cost accounting method:		
Evaluated properties	1,894,803	1,701,577
Less accumulated depreciation, depletion and amortization	(1,460,271)	(1,420,612)
Net oil and natural gas properties	434,532	280,965
Unevaluated properties	40,445	43,222
Total oil and natural gas properties	474,977	324,187
Other property and equipment, net	7,033	7,255
Restricted investments	3,802	3,806
Deferred tax asset	45,952	57,765
Acquisition deposit	10,629	—
Other assets, net	5,294	1,376
Total assets	$ 592,226	$ 423,953
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 50,491	$ 53,464
Market-based restricted stock unit awards	5,668	4,173
Asset retirement obligations	5,138	4,120
Fair value of derivatives	465	1,036
Total current liabilities	61,762	62,793
13% senior notes:		
Principal outstanding	—	48,481
Deferred credit, net of accumulated amortization of $0 and $26,239, respectively	—	5,267
Total 13% senior notes	—	53,748
Senior secured revolving credit facility	20,000	22,000
Secured second lien term loan	82,500	—

Asset retirement obligations	1,281	2,612
Market-based restricted stock unit awards	9,841	3,409
Other long-term liabilities	1,091	297
Total liabilities	176,475	144,859
Stockholders' equity:		
Preferred stock, series A cumulative, $0.01 par value and $50.00 liquidation preference, 2,500,000 shares authorized: 1,578,948 and 1,578,948 shares outstanding, respectively	16	16
Common stock, $0.01 par value, 110,000,000 and 60,000,000 shares authorized; 55,218,827 and 40,345,456 shares outstanding, respectively	552	404
Capital in excess of par value	525,166	401,540
Accumulated deficit	(109,983)	(122,866)
Total stockholders' equity	415,751	279,094
Total liabilities and stockholders' equity	$ 592,226	$ 423,953

The accompanying notes are an integral part of these consolidated financial statements.

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Callon Petroleum Company

Consolidated Statements of Operations

(Unaudited; in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating revenues:				
Oil sales	$ 36,346	$ 27,014	$ 104,965	$ 65,615
Natural gas sales	3,311	3,783	8,479	10,483
Total operating revenues	39,657	30,797	113,444	76,098
Operating expenses:				
Lease operating expenses	6,270	5,270	14,863	16,412
Production taxes	2,247	991	6,429	2,217
Depreciation, depletion and amortization	16,115	11,907	38,635	33,603
General and administrative	3,261	5,826	23,707	14,110
Accretion expense	202	458	603	1,556
Gain on sale of other property and equipment	—	—	(1,080)	—
Total operating expenses	28,095	24,452	83,157	67,898
Income from operations	11,562	6,345	30,287	8,200
Other (income) expenses:				
Interest expense	2,205	1,417	5,007	4,469
Gain on early extinguishment of debt	—	—	(3,205)	—
(Gain) loss on derivative contracts	(9,944)	3,686	(2,746)	2,123
Other (income) expense	(61)	(279)	(203)	(368)
Total other (income) expenses	(7,800)	4,824	(1,147)	6,224
Income before income taxes	19,362	1,521	31,434	1,976
Income tax expense	7,161	456	12,630	950
Income before equity in earnings of Medusa Spar LLC	12,201	1,065	18,804	1,026
Equity from Medusa Spar LLC	—	17	—	14
Net income	12,201	1,082	18,804	1,040
Preferred stock dividends	(1,974)	(1,974)	(5,921)	(2,654)
Income (loss) available to common stockholders	$ 10,227	$ (892)	$ 12,883	$ (1,614)
Income (loss) per common share:				
Basic	$ 0.24	$ (0.02)	$ 0.31	$ (0.04)
Diluted	$ 0.23	$ (0.02)	$ 0.30	$ (0.04)
Shares used in computing income (loss) per common share:				
Basic	43,187	40,321	41,370	40,064
Diluted	44,211	40,321	42,510	40,064

The accompanying notes are an integral part of these consolidated financial statements.

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Callon Petroleum Company

Consolidated Statements of Cash Flows

(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$ 18,804	$ 1,040
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	39,493	34,668
Accretion expense	603	1,556
Amortization of non-cash debt related items	494	348
Amortization of deferred credit	(433)	(2,448)
Equity in earnings of Medusa Spar LLC	—	(14)
Deferred income tax expense	12,630	950
Net loss (gain) on derivatives, net of settlements	(5,728)	2,929
Gain on sale of other property and equipment	(1,080)	—
Non-cash gain on early debt extinguishment	(3,205)	—
Non-cash expense related to equity share-based awards	432	1,335
Change in the fair value of liability share-based awards	6,571	1,076
Payments to settle asset retirement obligations	(3,283)	(701)
Changes in current assets and liabilities:		
Accounts receivable	(8,016)	(3,455)
Other current assets	802	(236)
Current liabilities	3,449	1,969
Payments to settle vested liability share-based awards	(3,469)	(239)
Change in other long-term liabilities	—	(258)
Change in other assets, net	(367)	(3,306)
Net cash provided by operating activities	57,697	35,214
Cash flows from investing activities:		
Capital expenditures	(188,793)	(101,067)
Acquisition	—	(11,000)
Deposit on acquisition	(10,629)	—
Proceeds from sales of mineral interest and equipment	1,991	1,389
Distribution from Medusa Spar LLC	—	813
Net cash used in investing activities	(197,431)	(109,865)
Cash flows from financing activities:		
Borrowings on debt	200,000	48,000
Payment of deferred financing costs	(3,068)	—
Payments on debt	(169,610)	(41,000)
Issuance of preferred stock	—	70,035

Issuance of common stock	122,514	—
Payment of preferred stock dividends	(5,921)	(2,654)
Net cash provided by financing activities	143,915	74,381
Net change in cash and cash equivalents	4,181	(270)
Balance, beginning of period	3,012	1,139
Balance, end of period	$ 7,193	$ 869

The accompanying notes are an integral part of these consolidated financial statements.

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Callon Petroleum Company

Notes to the Consolidated Financial Statements

(Unless otherwise indicated, dollar amounts included in the footnotes to the financial

statements are presented in thousands, except for per share and per unit data)

INDEX TO THE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Description of Business and Basis of Presentation

Description of business

Callon Petroleum Company is an independent oil and natural gas company established in 1950. The Company was incorporated under the laws of the state of Delaware in 1994 and succeeded to the business of a publicly traded limited partnership, a joint venture with a consortium of European investors and an independent energy company partially owned by a member of current management. As used herein, the “Company,” “Callon,” “we,” “us,” and “our” refer to Callon Petroleum Company and its predecessors and subsidiaries unless the context requires otherwise.

Callon is focused on the acquisition, development, exploration and exploitation of unconventional oil and natural gas reserves in the Permian Basin in West Texas. In late 2013, with the sale of its remaining offshore assets in the Gulf of Mexico, the Company completed the onshore strategic repositioning it initiated in 2009.

Basis of presentation

Unless otherwise indicated, all dollar amounts included within the footnotes to the financial statements are presented in thousands, except for per share and per unit data.

The interim consolidated financial statements of the Company have been prepared in accordance with (1) GAAP, (2) the SEC's instructions to Quarterly Report on Form 10-Q and (3) Rule 10-01 of Regulation S-X, and include the accounts of the Company, and its subsidiary, Callon Petroleum Operating Company ("CPOC"). CPOC also has subsidiaries, namely Callon Offshore Production, Inc. and Mississippi Marketing, Inc.

These interim consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The balance sheet at December 31, 2013 has been derived from the audited financial statements at that date. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ended December 31, 2014.

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, including normal recurring adjustments and all intercompany account and transaction eliminations, necessary to present fairly the Company's financial position, the results of its operations and its cash flows for the periods indicated. When necessary to ensure consistent presentation, certain prior year amounts may be reclassified to conform to presentation in the current period. Certain prior year amounts have been reclassified to conform to current year presentation.

Recently issued accounting policies

In May 2014, the Financial Accounting Standards Board issued accounting standards update ("ASU") No. 2014-09, Revenue from Contracts with Customers. The standard requires an entity to recognize revenue in a manner that depicts the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 will replace most of the existing revenue recognition requirements in GAAP when it becomes effective. The guidance in ASU No. 2014-09 is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods therein. Early adoption is not permitted. The Company is currently evaluating the method of adoption and impact this standard will have on its financial statements and related disclosures.

Note 2 – Oil and Natural Gas Properties

Acquisitions

In the first quarter of 2014, the Company acquired 1,527 net acres in Upton and Reagan Counties, Texas, which are located in the southern portion of the Midland Basin near its existing core development fields, for an aggregate cash purchase price of $8,200. The properties bear a working interest of 100% and an average net revenue interest of 78%.

On October 8, 2014, the Company completed the acquisition of certain undeveloped acreage and producing oil and gas properties located in Midland, Andrews, Ector and Martin Counties, Texas (the "Acquisition") for an aggregate cash purchase price of $205,011, including estimated purchase price adjustments of $7,561 based on an effective date of May 1, 2014. The Company assumed operatorship of the properties on November 1, 2014, and acquired a 62% working interest (46.5% net revenue interest) in the Acquisition. The aggregate cash purchase price was funded with a combination of the net proceeds from an equity offering of $122,514 and a portion of the proceeds from borrowings under a new $300,000 secured second lien term loan (the "New Second Lien Loan"). For additional information on the debt transactions and equity offering, see Notes 4 and 9, respectively.

The Acquisition was accounted for under the purchase method of accounting, which involves determining the fair value of the assets acquired and liabilities assumed. The following purchase price allocation is preliminary and based on management's estimates of the fair value of the assets acquired and liabilities assumed as of the date of this Form 10-Q. The preliminary purchase price allocation is subject to change based on numerous factors, including the final adjusted purchase price and the final estimated fair value of the assets acquired and liabilities assumed. Any such adjustments to the preliminary estimates of fair value could be material.

The following table summarizes the estimated acquisition date fair values of the net assets acquired:

Oil and natural gas properties	$ 92,847
Unevaluated oil and natural gas properties	113,092
Asset retirement obligations	(928)
Net assets to be acquired	$ 205,011

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The following unaudited summary pro forma financial information for the three and nine month periods ended September 30, 2014 has been presented for illustrative purposes only and does not purport to represent what the Company's results of operations would have been if the Acquisition had occurred as presented, or to project the Company's results of operations for any future periods. The pro forma financial information was prepared assuming the Acquisition and the debt transactions and equity offering discussed in Notes 4 and 9, respectively, occurred as of January 1, 2013. The pro forma adjustments are based on available information and certain assumptions that management believes are reasonable, including revenue, lease operating expenses, production taxes, depreciation, depletion and amortization expense, accretion expense, interest expense and capitalized interest.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	$ 48,035	$ 43,253	$ 142,040	$ 114,078
Income from operations	15,269	13,721	45,453	28,481
Income available to common stockholders	11,102	766	16,571	2,477
Net income per common share:				
Basic	$ 0.19	$ 0.01	$ 0.30	$ 0.05
Diluted	$ 0.19	$ 0.01	$ 0.29	$ 0.05

Note 3 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

(share amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$ 12,201	$ 1,082	$ 18,804	$ 1,040

Preferred stock dividends	(1,974)	(1,974)	(5,921)	(2,654)
Income (loss) available to common stockholders	$ 10,227	$ (892)	$ 12,883	$ (1,614)
Weighted average shares outstanding	43,187	40,321	41,370	40,064
Dilutive impact of restricted stock	1,024	—	1,140	—
Weighted average shares outstanding for diluted income (loss) per share	44,211	40,321	42,510	40,064
Basic income (loss) per share	$ 0.24	$ (0.02)	$ 0.31	$ (0.04)
Diluted income (loss) per share	$ 0.23	$ (0.02)	$ 0.30	$ (0.04)
The following were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive:				
Stock options	30	52	30	52
Restricted stock	—	239	—	239

Note 4 – Borrowings

The Company’s borrowings consisted of the following at:

	September 30, 2014	December 31, 2013
Principal components:		
Credit Facility	$ 20,000	$ 22,000
Second Lien Loan	82,500	—
13% Senior Notes, principal	—	48,481
Total principal outstanding	102,500	70,481
13% Senior Notes, unamortized deferred credit	—	5,267
Total carrying value of borrowings	$ 102,500	$ 75,748

Senior secured revolving credit facility (the “Credit Facility”)

On March 11, 2014, the Company entered into the Fifth Amended and Restated Credit Agreement to the Credit Facility with a maturity date of March 11, 2019. JPMorgan Chase Bank, N.A. is Administrative Agent, and participating lenders include Regions Bank, Citibank, N.A., Capital One, N.A., KeyBank, N.A., Whitney Bank, IberiaBank, N.A., OneWest Bank, N.A., SunTrust Bank and Royal Bank of Canada. The total notional amount available under the Credit Facility is $500,000. Amounts borrowed under the Credit Facility may not exceed the borrowing base, which is generally reviewed on a semi-annual basis. As of September 30, 2014 the Credit Facility’s borrowing base was $155,000. The Credit Facility is secured by first preferred mortgages covering the Company’s major producing properties. In conjunction with the closing of the Acquisition on October 8, 2014, the borrowing base on the Company’s Credit Facility was amended to $250,000.

As of September 30, 2014, the balance outstanding on the Credit Facility was $20,000 with a weighted-average interest rate of 2.43%, calculated as the LIBOR plus a tiered rate ranging from 1.75% to 2.75%, which is determined based on utilization of the facility. In addition, the Credit Facility carries a commitment fee of 0.5% per annum, payable quarterly, on the unused portion of the borrowing base.

Term loans

On March 11, 2014, the Company entered into the Secured Second Lien Term Loan (the “Second Lien Loan”) in an aggregate amount of up to $125,000, including initial commitments of $100,000 and additional availability of $25,000 subject to the consent of two-thirds of the lenders and compliance with financial covenants after giving effect to such increase. The Second Lien Loan matures on September 11, 2019, and is not subject to mandatory prepayments unless new debt or preferred stock is issued. The Second Lien Loan may be prepaid at the Company’s option, subject to a prepayment premium. The prepayment amount is (i) 102% if the prepayment event occurs prior to March 11, 2015, and (ii) 101% if the prepayment event occurs on or after March 15, 2015 but before March 15, 2016, and (iii) 100% for prepayments made on or after March 15, 2016. The Second Lien Loan is secured by junior liens on properties mortgaged under the Credit Facility, subject to an intercreditor agreement. On April 10, 2014, the Company drew an initial amount of $62,500 with an original issue discount of 1.0%. In addition, the Second Lien Loan carries a commitment fee of 0.5% per annum, payable quarterly, on the unused portion of the initial commitment amount until March 11, 2015. As of September 30, 2014, the balance outstanding on the Second Lien Loan was $82,500 with an interest rate of 8.75%, calculated at a rate of LIBOR (subject to a floor rate of 1.0%) plus 7.75% per annum.

Subsequent to September 30, 2014, the Second Lien Loan was repaid in full using proceeds from the New Second Lien Loan discussed below, resulting in a loss on early extinguishment of debt of $3,054. In conjunction with the closing of the Acquisition on October 8, 2014, the Company refinanced its Second Lien Loan with the New Second Lien Loan with a maturity date of October 8, 2021. The Royal Bank of Canada is Administrative Agent, and participants include several institutional lenders. On October 8, 2014, the Company drew an initial amount of $300,000 with a discount of 2.0% and an interest rate of 8.5%, calculated at a rate of LIBOR (subject to a floor rate of 1.0%) plus 7.5% per annum. The New Second Lien Loan may be prepaid at the Company’s option, subject to a prepayment premium. The prepayment amount is (i) 102% if the prepayment event occurs prior to October 8, 2015, and (ii) 101% if the prepayment event occurs on or after October 8, 2015 but before October 8, 2016, and (iii) 100% for prepayments made on or after October 8, 2016. The New Second Lien Loan is secured by junior liens on properties mortgaged under the Credit Facility, subject to an intercreditor agreement.

13% senior notes due 2016 (“Senior Notes”) and deferred credit

On April 11, 2014, the Company completed a full redemption of the remaining $48,481 principal amount of outstanding Senior Notes using proceeds from the Second Lien Loan. The redemption resulted in a net $3,205 gain on the early extinguishment of debt (including $4,780 of accelerated deferred credit amortization). The gain represents the difference between the $50,057 paid for the redemption of the Senior Notes ($1,576 of redemption costs, primarily the call premium) and the carrying value of the remaining Senior Notes of $53,261 (inclusive of $4,780 of deferred credit). The Company also paid $193 in accrued interest through the redemption date. Upon the redemption, the indenture governing the Senior Notes was discharged in accordance with its terms.

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Restrictive covenants

The Company’s Credit Facility and Second Lien Loan contain various covenants including restrictions on additional indebtedness, payment of cash dividends and maintenance of certain financial ratios. The Company was in compliance with these covenants at September 30, 2014.

Note 5 - Derivative Instruments and Hedging Activities

Objectives and strategies for using derivative instruments

The Company is exposed to fluctuations in oil and natural gas prices received for its production. Consequently, the Company believes it is prudent to manage the variability in cash flows on a portion of its oil and natural gas production. The Company utilizes a mix of collars, swaps, puts, calls and similar derivative financial instruments to manage fluctuations in cash flows resulting from changes in commodity prices. The Company does not use these instruments for speculative or trading purposes.

Counterparty risk and offsetting

The use of derivative instruments exposes the Company to the risk that a counterparty will be unable to meet its commitments. While the Company monitors counterparty creditworthiness on an ongoing basis, it cannot predict sudden changes in counterparties’ creditworthiness. In addition, even if such changes are not sudden, the Company may be limited in its ability to mitigate an increase in counterparty credit risk. Should one of these counterparties not perform, the Company may not realize the benefit of some of its derivative instruments under lower commodity prices while continuing to be obligated under higher commodity price contracts subject to any right of offset under the agreements. Counterparty credit risk is considered when determining the fair value of a derivative instrument; see Note 6 for additional information regarding fair value.

The Company executes commodity derivative contracts under master agreements that have netting provisions that provide for offsetting payables against receivables. In general, if a party to a derivative transaction incurs an event of default, as defined in the applicable agreement, the other party will have the right to demand the posting of collateral, demand a cash payment transfer or terminate the arrangement.

Financial statement presentation and settlements

Settlements of the Company's derivative instruments are based on the difference between the contract price or prices specified in the derivative instrument and a benchmark price, such as the NYMEX price. To determine the fair value of the Company's derivative instruments, the Company utilizes present value methods that include assumptions about commodity prices based on those observed in underlying markets. See Note 6 for additional information regarding fair value.

Derivatives not designated as hedging instruments

The Company elected not to designate its derivative contracts as accounting hedges under Accounting Standards Codification 815. Consequently, the Company records its derivative contracts at fair value in the consolidated balance sheet and records changes in fair value as a gain or loss on derivative contracts in the consolidated statement of operations. Cash settlements are also recorded as gain or loss on derivative contracts in the consolidated statement of operations.

The following table reflects the fair value of the Company's derivative instruments for the periods presented:

	Balance Sheet Presentation		Asset Fair Value		Liability Fair Value		Net Derivative Fair Value	
Commodity	Classification	Line Description	09/30/14	12/31/2013	09/30/2014	12/31/2013	09/30/2014	12/31/2013
Natural gas	Current	Fair value of derivatives	$ —	$ —	$ (47)	$ —	$ (47)	$ —
Natural gas	Current	Fair value of derivatives	—	60	—	—	—	60
Natural gas	Non-current	Other long-term liabilities	—	—	(41)	(72)	(41)	(72)
Oil	Current	Fair value of derivatives	4,842	—	(418)	(1,036)	4,424	(1,036)
Oil	Non-current	Other long-term assets	1,169	—	—	—	1,169	—

Oil	Non-current	Other long-term liabilities	—	—	(824)	—	(824)	—
	Totals		$ 6,011	$ 60	$ (1,330)	$ (1,108)	$ 4,681	$ (1,048)

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(Unless otherwise indicated, dollar amounts included in the footnotes to the financial
statements are presented in thousands, except for per share and per unit data)

As previously discussed, the Company's derivative contracts are subject to master netting arrangements. The Company's policy is to present the fair value of derivative contracts on a net basis in the consolidated balance sheet. The following presents the impact of this presentation to the Company's recognized assets and liabilities at September 30, 2014:

	Presented without Effects of Netting	Effects of Netting	As Presented with Effects of Netting
Current assets: Fair value of derivatives	$ 4,968	$ (126)	$ 4,842
Long-term assets: Fair value of derivatives	1,169	—	1,169
Current liabilities: Fair value of derivatives	$ (591)	$ 126	$ (465)
Long-term liabilities: Fair value of derivatives	(865)	—	(865)

For the periods indicated, the Company recorded the following related to its derivatives in the consolidated statement of operations as gain or loss on derivative contracts:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Natural gas derivatives				
Net gain (loss) on settlements	$ 35	$ (16)	$ (144)	$ (123)
Net gain (loss) on fair value adjustments	55	81	(77)	178
Total gain (loss)	$ 90	$ 65	$ (221)	$ 55
Oil derivatives				
Net gain (loss) on settlements	$ (497)	$ (618)	$ (2,838)	$ 804
Net gain (loss) on fair value adjustments	10,351	(3,133)	5,805	